United Nations E/2012/78

Economic and Social Council

Distr.: General
29 May 2012

Original: English

Substantive session of 2012
New York, 2-27 July 2012
Item 2 (b) of the provisional agenda*
High-level segment: Development Cooperation Forum

Trends and progress in international development cooperation

Report of the Secretary-General

Summary

In accordance with General Assembly resolution 61/16, the present report is submitted by the Secretary-General for consideration by the Development Cooperation Forum. The report builds on discussions at high-level symposiums held in Mali in May 2011, in Luxembourg in October 2011, and in Australia in May 2012.

The main findings of the report are:

(a) Many Millennium Development Goal 8 commitments remain unfulfilled. The world economic crisis is eroding debt sustainability, trade negotiations are stalemated, and access to affordable medicines and technology is patchy. Stronger development cooperation partnerships could accelerate progress;

(b) There has been little progress on achieving coherence between development cooperation and the non-aid policies of developed countries. However, development cooperation can play a strong role in catalysing domestic financing for development by increasing tax revenue and access to affordable financial services. Deliberations at preparatory meetings and studies of the Development Cooperation Forum have identified best practices;

(c) Sustainable development implies rethinking the model and results underlying development cooperation, giving prominence to rights to development, equity, employment, sustainable resource use and fighting climate change. Global and national institutions will need to enhance their ability to spur coherent policies that are led by programme countries and fully involve non-executive stakeholders. Mutual accountability processes need to reflect this evolution. Funding needs to be

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dramatically scaled up and its delivery improved, and partnerships have to be nurtured to catalyse innovation and technology and ensure access for the poor. Best practice stories of development cooperation success need to be validated by ex ante and ex post impact analysis to show that they are supporting all three pillars (economic, social and environmental) of sustainable development;

(d) Growth in development cooperation is slowing, but it remains vital for the least developed countries and the attainment of the Millennium Development Goals. Providers continue to diversify, with rising South-South, philanthropic and decentralized cooperation. Development Assistance Committee official development assistance (ODA) is likely to stagnate over the medium term, with receding prospects of countries reaching 0.7 per cent ODA/gross national income (GNI) by 2015. More cooperation should flow via multilateral institutions;

(e) There has been some progress on allocating ODA to countries which need it most, but this must be accelerated. Aid modalities continue to be inconsistent with programme countries' wish to see increased budget support and reduced technical assistance. There needs to be more investment in infrastructure, health systems, basic education and gender equality;

(f) Development Cooperation Forum debates have emphasized the importance of a comprehensive approach to assessing the quality and results of development cooperation. Different providers assess quality differently, but programme countries and non-executive stakeholders place particular emphasis on: measuring longer-term results; assessing progress in increasing predictability; reducing conditionality, fragmentation and tying; and maintaining concessionality; all being issues on which progress is poor. Duplication of discussions and frameworks on aid quality should be avoided, for example by building more systematic linkages between post-Busan ministerial meetings and the Development Cooperation Forum, which is a universal forum;

(g) Accountability and transparency are crucial for results. United Nations surveys indicate that national strategies, targets for each provider and strong leadership are key to progress on national mutual accountability between providers and programme countries. Such mutual accountability in turn can have a major positive impact on the behaviour of programme countries and providers, and bring about sharp increases in results. Mutual accountability should allow all providers and domestic stakeholders to participate much more fully. A strong global mutual accountability framework is a prerequisite for progress at the national level, as is overcoming capacity constraints. Transparency is also vital, but must be more closely tailored to what is needed for accountability;

(h) Global political dialogue on South-South cooperation has increased since 2008. Flows are set to continue growing. Such cooperation varies widely in terms of modalities and country focus. Studies conducted by the Development Cooperation Forum indicate that South-South infrastructure support is highly cost-effective and predictable and that well-designed South-South cooperation in agriculture can boost smallholder production and food security. Triangular cooperation continues to have major advantages, especially for capacity development.

The report concludes with a number of action-oriented recommendations on the future role of development cooperation. These include measures to address the Millennium Development Goal 8 commitments, to catalyse domestic resources more

effectively, to promote sustainable development, to improve allocation, to increase quality and results, to accelerate progress on accountability and transparency, and to maximize the benefits of South-South and triangular cooperation. Finally, the report considers the possible future role of the Development Cooperation Forum in assisting progress on those initiatives.

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I. Introduction

A. Background

1. The roots of the Development Cooperation Forum lie in the 2005 World Summit, at which the Economic and Social Council was called upon to convene a biennial forum to review trends and progress in international development cooperation, to promote coherence across different development actors and to strengthen links between the normative and operational aspects of the work of the United Nations. The Development Cooperation Forum is entrusted with identifying gaps and obstacles in international development cooperation and providing practical policy recommendations to overcome them.

2. The deliberations during the first cycle of the Forum, in 2007-2008, provided strategic inputs to the Follow-up International Conference on Financing for Development and fed into the Accra High-level Forum on Aid Effectiveness. Similarly, key messages of the second cycle of the Forum, in 2009-2010, and the resulting International Development Cooperation Report on *Development Cooperation for the Millennium Development Goals: Maximizing Results* (ST/ESA/326), contributed to the outcome documents of the Millennium Development Goal Summit. It also influenced the Busan Partnership Agreement for Effective Development Cooperation. The Development Cooperation Forum has established a strong reputation as a multi-stakeholder forum that discusses independent analysis and produces recommendations to increase the results of development cooperation.

3. The third cycle of the Forum (2011-2012) has focused on six areas: (i) development cooperation for sustainable development; (ii) using development cooperation to catalyse domestic development financing; (iii) trends in quantity, allocation and quality; (iv) mutual accountability and transparency; (v) South-South and triangular cooperation; and (vi) global philanthropy and foundations. It has produced multiple analytical studies on these issues, which were discussed to generate consensus on policy recommendations at three high-level preparatory symposiums, in Mali in May 2011, in Luxembourg in October 2011, and in Australia in May 2012, and several other expert meetings (see http://www.un.org/en/ecosoc/newfunct/2012dcf.shtml).

B. Development cooperation

Development cooperation must grow and increase impact to combat huge global challenges

4. This present report comes at a time when the global economic, fuel and food crises continue to hit the world's poorest citizens the hardest. The huge financing needs for the acceleration of progress on the Millennium Development Goals are unmet. The international community is also focusing on new challenges of pursuing economically, socially and environmentally sustainable development — including equity, decent work, the right to development and combating climate change.

5. Yet, there has been relatively little progress on most aspects of Millennium Development Goal 8 (see sect. III below) or on overall policy coherence for development. There are emerging best practices in catalysing domestic financing for

development (see sect. IV). While development cooperation has a key role to play in supporting sustainable development (see sect. V), recent growth of the Development Assistance Committee (DAC) official development assistance (ODA) is slowing sharply (see sect. VI.A). There has been little progress on improving its allocation (see sect. VI.B) or quality (see sect. VII). Mutual accountability and transparency offer huge opportunities to increase impact and results (see sect. VIII), and South-South and triangular cooperation also offer many positive lessons (see sect. IX). The final section of the report summarizes key messages and recommendations, including for the future role of the Development Cooperation Forum, which have emerged from this cycle of Development Cooperation Forum work.

II. Global partnership for development

A. Implementing the Millennium Development Goal 8 commitments

Many Millennium Development Goal 8 commitments remain unfulfilled

6. At the 2010 Millennium Development Goal Summit, world leaders agreed to take urgent and decisive action to meet the Goals by 2015 and, especially, to strengthen the global partnership for development (Goal 8).

7. Since then, the Fourth United Nations Conference on the Least Developed Countries, held in May 2011, recommended new measures to elevate 50 per cent of the least developed countries out of that status by 2020. In November 2011, the Fourth High-level Forum on Aid Effectiveness, led by the Organization for Economic Cooperation and Development (OECD), launched a new partnership for effective development cooperation. UNCTAD XIII, held in April 2012, set inclusive growth and decent work, as well as the strengthening of North-South, South-South and triangular cooperation for trade and development, as essential objectives. By the time the present report is published, the Rio+20 Conference and ongoing work on the post-2015 development agenda will have re-emphasized that sustainable development must be at the centre of development strategies.

8. In spite of this global dialogue and renewal of commitments, significant gaps remain in delivering on the quantity and quality of development cooperation (see sects. VI and VII below), trade and debt relief. There has not been much progress on providing access to essential medicines, and the availability and affordability of new technologies in developing countries remains variable.

9. The slow progress is compounded by the lack of clear targets for Goal 8 compared to the other Millennium Development Goals. The United Nations system has developed an integrated implementation framework to help review progress in meeting commitments to Goal 8 and identify inconsistencies and unmet needs to support national development strategies. However, much more transparency and accountability are needed to ensure delivery of commitments to Goal 8.

B. Debt vulnerabilities in developing countries

In spite of extensive debt relief, the crisis is eroding hard-won debt sustainability

10. Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) has allowed many countries to spend more on poverty reduction. Overall, for the 36 post-decision point HIPC, between 2001 and 2010, debt service fell from 13 to 4 per cent of exports, and present value of debt from 114 to 19 per cent of gross domestic product (GDP). Yet the process has been slow; seven countries have yet to receive part or all of their relief. In addition, not all creditors are providing relief, and the international community needs to pass more legislation to prevent litigation by commercial creditors.

11. Broader initiatives are also required to make debt relief faster, more comprehensive, transparent and impartial for all debt distressed developing countries. Yet the international community is moving in the opposite direction. The recent closing of the HIPC Initiative to new entrants could preclude future debt distressed countries from receiving relief. Proposals for a fair and transparent arbitration procedure have not made significant progress.

12. Important debt vulnerabilities remain. As at the end of 2011, eight low-income countries were in debt distress, and a further 15 were at high risk of debt distress. Owing partly to the lack of grants as a result of the global economic crisis, many countries are increasingly borrowing to fund development programmes. Much of the borrowing is from domestic creditors, channelled to government enterprises or private sector borrowers, or via off-budget public-private partnerships and other contingent liabilities. In some countries, such borrowing is already leading to rapid accumulation of new debt burdens. Some middle-income small island developing States are also seeing dramatic increases in their debt burdens.

13. The International Monetary Fund and the World Bank have recently reviewed the analytical framework used by the international community to assess the debt sustainability of low-income countries, and decided to monitor debt even more closely. The UNCTAD Principles on Responsible Sovereign Lending and Borrowing are also gaining some momentum. However, it is vital to turn those initiatives into clear guidance for lenders and borrowers and to accelerate efforts to build the capacity of programme countries in project design and debt management so that they can fund all three pillars of sustainable development without a renewed unsustainable debt burden.

C. Multilateral trade negotiations

Progress on trade negotiations is essential to sustainable development in least developed countries

14. Negotiations on the Doha development round of trade negotiations are in a stalemate. The call by the 2010 Millennium Development Goal Summit for all countries to exempt least developed countries from duties and quotas by 2015 remains unanswered. One fifth of exports from least developed countries continue to face high tariff barriers, especially on finished products and processed agricultural goods. In the absence of multilateral progress, regional and bilateral trading arrangements continue to proliferate (see A/66/329). Developed countries continue

to support domestic production through distortionary non-tariff measures, such as regulations, standards and testing and certification procedures.

15. Progress on trade negotiations could help all three pillars of sustainable development. The least developed countries could diversify away from primary goods, move up the value chain, reap economies of scale and reduce vulnerability to commodity price shocks. Improving market access would create jobs, mobilize revenue for social spending and contribute to inclusive growth. The resulting new skills and technology could help least developed countries leapfrog into clean, energy-efficient production. However, steps to reinforce the negotiating positions of developing countries in global production chains will be essential for those benefits to materialize.

16. To enable developing countries to benefit more fully from global trade opportunities, developed countries must address three issues. The first is reducing their protectionism so that their aid for trade can have its intended benefits. The second is the allocation of more cooperation to enhance productive capacity and diversify exports. The third is enhancing knowledge-sharing and technology transfer, especially for sustainable development.

D. Access to medicine and technology

Access to affordable medicines is very patchy, and development cooperation can help

17. There are still large gaps in the availability of medicines, as well as wide variation in prices. According to the World Health Organization, essential medicines are available in only half of public sector facilities in developing countries and at an average cost that is three times higher than international reference prices. The expansion of access to affordable medicines requires not only financial resources, but also training, quality assurance, and adequately functioning health-care systems.

18. Development cooperation could contribute in this area by: (a) promoting innovation; (b) helping countries to use the flexibility afforded by trade-related intellectual property rights agreements to produce affordable generic medicines; (c) addressing non-price barriers; and (d) strengthening the capacity of the national health-care and pharmaceutical systems.

New technologies are becoming more widespread, but require stronger partnerships

19. There has been some progress in enhancing the access of developing countries to new technologies, in particular for information and communications. Mobile cellular services and Internet access have expanded rapidly, but regional differences in access and cost persist. South-South trade and investment relationships have particularly helped to provide developing countries with technology appropriate for their level of industrialization.

20. Technologies addressing the impact of climate change and the rising incidence of natural disasters have benefited from several global initiatives and funding commitments. Increasing collaborative research and development among private, non-profit and official actors across national boundaries would enhance the development and diffusion of technology.

III. Policy coherence for development

21. Preparations of the Development Cooperation Forum have continued to include a focus on policy coherence. Coherence in terms of trade, debt and technology policies has already been discussed in section III above, and coherence (or alignment) with programme country strategies is discussed in section VI.B below.

22. Debates at the Development Cooperation Forum have previously emphasized the need for DAC donor countries to ensure that their non-aid policies support progress towards the internationally agreed development goals, and for programme countries to engage more effectively with development partners on issues that go "beyond aid". Progress in those two dimensions of policy coherence remains unimpressive in spite of the efforts of some programme countries to discuss non-aid policies more forcefully with providers.

23. The focus in the current cycle of the Development Cooperation Forum has been on coherence between development cooperation and other types of development financing — often known as the "catalytic role" of development cooperation. In particular, attention has been paid to how development cooperation can help to ensure that programme countries have more sustainable domestic development financing sources coming from mobilization of tax revenue and microfinance. Future work of the Forum will focus on best practices in catalysing external private flows, such as foreign investment and public-private partnerships.

Revenue mobilization assistance needs to go beyond technical assistance for better administration

24. Least developed countries tend to have a narrow tax base owing to the predominance of the informal sector and a lack of diversification. This may be compounded by tax exemptions, avoidance and evasion of taxes through havens and weak enforcement capacities. OECD country legislation which insists on exemptions from local taxes for investors from their countries, or payment of taxes in their OECD headquarters economies, compounds the problem. Some provider support has been directed towards strengthening tax administrations and public financial management in recent years. As of 2010, however, this accounted for less than 5 per cent of DAC ODA flows.

25. There are clear priorities for revenue-related assistance going forward. Foremost among these is funding knowledge exchanges and training among developing countries on best practices in enhancing equitable and efficient revenue collection. These are already under way through the United Nations Tax Committee, the African Tax Administrators Forum and the Inter-American Center of Tax Administrations. Second, it is vital that all technical assistance to support revenue collection efforts focuses on building national capacity to increase revenue collection rather than making local structures dependent on foreign technical assistance. Third, it is essential to ensure that revenue collection reforms are progressive, and discourage overuse of resources, so as to maximize their contributions to equity and sustainability. Fourth, it is vital that decisions on tax and spending policies include all key stakeholders and that government spending is pro-poor and demonstrates clear results for national development, thereby maximizing ownership. Finally, much more can be achieved if OECD countries

change global (and national) tax rules to enhance revenue payments in developing countries and to encourage automatic sharing of information to reduce cross-border tax evasion and capital flight.

Access to affordable financial services plays a key role in poverty eradication

26. Development cooperation can also play a catalytic role in broadening access for the 2.5 billion people worldwide that remain excluded from affordable financial services. Background work for the Development Cooperation Forum found that financial exclusion deprives people of opportunities to invest, raise or stabilize their incomes and diversify their assets. The poor are less resilient against exogenous shocks, as they are unable to diversify their assets and hedge against risks. Economic vulnerability tends to be exacerbated by a lack of saving opportunities. Access to finance is also critical for small-scale entrepreneurship, which is the core of a dynamic private sector, by supporting productive investment and job creation.

27. Microfinance has had dramatic success in lending to large numbers of poor people, but only a limited record of success in reducing poverty. Development cooperation needs to be closely focused on those mechanisms which have poverty reduction and sustainable development (rather than financial sector profit) as their primary motivation.

28. Development Cooperation Forum research and deliberations have identified clear standards for best practices in increasing financial inclusion. They underscore the need for measures to address the incidence of market failures, including adjustments in regulation and supervision of financial institutions, and the elimination of barriers to market entry. They also emphasize the need to ensure that the financial sector provides financial services to the poorest at the lowest possible cost in terms of time and money, including the use of new technology, such as mobile phones. Financial services should also be targeted at productive investment, which will lead to sustainable livelihoods for the poor. They should be made sustainable by mobilizing savings to fund future investment, should pay more attention to microinsurance and social safety nets to protect the poorest from risks and shocks, and give them more security so as to encourage savings.

IV. Sustainable development

29. Before the Development Cooperation Forum in 2012, the United Nations Conference on Sustainable Development (Rio+20) will take place from 20 to 22 June. The three pillars of sustainable development are: promoting equitable growth and reducing poverty; advancing social equity; and ensuring environmental sustainability. The Conference is expected to reaffirm political commitment to sustainable development and chart an implementation road map.

30. A number of multi-stakeholder discussions around the implications of sustainable development for development cooperation were held in preparation for the Development Cooperation Forum. The most recent was the Forum's preparatory symposium in Australia, which drew a number of lessons for effective development cooperation in support of sustainable development.

Sustainable development requires rethinking the development model and indicators

31. The first conclusion of the debates was that sustainable development requires a rethinking of the dominant development model, which has focused on promoting growth and the largely social-development-oriented Millennium Development Goals. The report by the High-level Panel on Global Sustainability concluded that the current global development model is unsustainable, and that business as usual is not an option. The Rio+20 Conference is likely to accelerate recent discussions on the content of a post-2015 global development framework to enhance that of the Millennium Development Goals.

32. The core values of the Millennium Declaration will continue to be relevant after 2015, and the Millennium Development Goals have achieved huge progress in focusing the attention of governments and citizens on development and the results of government spending and development cooperation. This is because they are simple, limited in number, transparent and easy to publicize across the world. For this reason, all stakeholder groups have seen them as transformative and have urged that they be built upon.

33. However, the post-2015 United Nations Development Agenda will need to take greater account of equitable and inclusive development and will need to be designed in a more inclusive way, especially by bringing in non-executive stakeholders. This means beginning from the right to development and, on that basis, ensuring that growth is equitably distributed rather than only targeting the reduction of extreme poverty. It means focusing on equitable access to productive assets, government services, food and water, and respect for human rights. It also means emphasizing decent employment and adaptability — especially for the young — with higher spending on the acquisition of cognitive skills in early childhood and on vocational and technical training. It means an increased analysis of the impact of urbanization. All of those elements need to be achieved while using resources in a sustainable manner and fighting climate change.

34. The new framework will also need to place much more emphasis on the growing vulnerability of the poor to the effects of natural disasters and economic shocks, especially as a result of climate change. This means establishing strong overall social protection mechanisms and specific mechanisms to increase the resilience of the poor against disasters and climate change through disaster risk reduction.

35. Reconciling the demands of equitable growth, social equity and environmental sustainability will require large-scale investment in new pro-poor green technology. It is also important that this technology and knowledge are supplied to the poorest countries and their citizens in order for them to transition rapidly to an equitable green economy. This transition needs to be pursued in the wider context of sustainable development poverty eradication strategies.

Global and national institutions and mutual accountability processes need to change

36. The architecture (institutions and processes) underlying development cooperation at the global and national levels will also need to change fundamentally. There has too often been a "siloing" of debates and plans between economic, social and environmental issues. At the global level, the United Nations and other multisector bodies (including the Economic and Social Council and the

Development Cooperation Forum) will need to plan across all three pillars simultaneously and avoid any risk of parallel monitoring frameworks or governance institutions. This will require much more collaboration across institutions, agencies and units/departments.

37. The focus on sustainable development should also provide a spur to enhancing policy coherence across the three pillars and making sure that all provider policies (whether related to development cooperation or broader issues) have a positive impact on all three. For example, trade and investment policies and flows will need to be assessed for their impact on equity, rights and sustainable livelihoods for the poor, as well as for environmental sustainability and the fight against climate change: having a positive impact in one or two areas will no longer be sufficient.

38. The most fundamental driver of change will be programme country leadership. This will require an update of national development strategies or the adoption of national sustainable development strategies, as mandated by previous summits, to ensure that they cover all three pillars and the linkages among them. It will also need stronger leadership from heads of government and much closer collaboration among institutions, which are currently often competing for development cooperation resources.

39. Non-executive actors (parliaments and civil society organizations) will also need to emerge from committee or NGO silos and work together across the three pillars. This will require more systematic efforts to include environmental, youth, women's and urban organizations in the design and implementation of national development strategies and the regular assessments of implementation progress as part of mutual accountability mechanisms.

40. For all of these institutions and processes in provider and programme countries, there will be a need for dramatically increased support for capacity-building to help policymakers and staff cover all three sets of issues simultaneously.

41. Economic and social equity, as well as environmental sustainability, need to feature more prominently in mutual accountability processes in terms of development results, development cooperation which targets those results, and will require the broadening of mutual accountability frameworks to cover "beyond aid" coherence issues which affect sustainable development prospects.

Funding, delivery mechanisms and partnerships will need to be dramatically enhanced

42. Dramatic increases in financing will be essential to promote sustainable development and combat climate change. Incremental annual investment needs for the transition to a green economy are estimated to exceed $1.1 trillion (see E/2012/7). In the absence of any major increase in DAC ODA, there will need to be much more emphasis on innovative financing mechanisms.

43. This funding will be more automatic and predictable than budget-funded development cooperation, which is subject to economic volatility. It will and should continue to be provided through official (preferably multilateral) channels. This should happen in ways which build on their best features, such as coordination, focus on results, allocations based on need and programme country leadership. Some negative features of certain global vertical funds, such as top-down decision-making, and parallel plans, systems and management structures should be avoided.

This will make efforts to increase the results and effectiveness of development cooperation even more relevant to new structures and channels which may be used to finance sustainable development.

44. To the degree that planning and budgeting needs to take place across all three pillars simultaneously, the case for multisectoral budget support will become even stronger. Where this is not possible, there is a strong risk that development cooperation will be reallocated to combat climate change or conserve natural resources and that this could lead to a reduction in flows to low-income countries and sub-Saharan Africa in favour of countries whose environmental needs and on which the impact of climate change might be greater. The Development Cooperation Forum and other forums will therefore need to pay even greater attention to future trends in allocation.

45. The scale of the challenge will also necessitate the dramatic reinforcement of partnerships among DAC providers, Southern providers, philanthropy and the private sector. They can enrich mutual contributions and learning by promoting innovation and appropriate technology. Triangular cooperation is likely to be particularly vital.

46. In this context, development cooperation is uniquely placed to catalyse other funding and innovation/technology. As with medicines and other technology, it could help to overcome intellectual property rights barriers, help investments to occur at the global and regional (rather than national) levels, and fund "demonstration" projects which can be replicated with private funds. Much more analysis of best practices will be needed to achieve those aims. However, as with other aspects of the catalytic role of development cooperation, there will need to be careful analysis and identification of best practices to ensure that cooperation is not being used to subsidize private sector investments with little impact on sustainable development.

47. A final aspect of sustainable funding is the need to reduce dependence on external flows (not just development cooperation, but highly volatile private flows) and enhance the mobilization of domestic funds. Development cooperation needs to embed exit strategies in its design, as well as strategies to cope with volatile private flows, and to promote domestic financing. This includes promoting social protection and sustainable livelihoods for the poor that allow them to contribute to growth and mobilization of revenue.

48. In terms of future Development Cooperation Forum priorities, all stakeholders have urged that the Forum continue to assess the "additionality" of this funding (especially the money allocated to combating climate change) compared with "development cooperation". However, they have also underlined that the Forum must become a key entity in which the new financing is assessed on the same basis as development cooperation, that is, for its contribution to results.

Best practice stories need to be complemented by ex ante and ex post impact analysis

49. There are multiple examples of best practices in delivering development cooperation for sustainable development across all three pillars (as opposed to programmes or projects which tackle environmental sustainability as an "add-on"). These programmes allow poorer citizens to simultaneously enhance equity, productive capacity and sustainability of resource use and combat climate change.

However, much of the current knowledge is in the form of positive "case stories" supplied by providers without independent quality control or clarity as to whether they can be replicated or scaled up.

50. To ensure that genuine best practices are being supported and exchanged among countries, it is essential to design simple methodologies for programme countries, providers and non-executive stakeholders to conduct ex ante assessment of economic, social and environmental impact for policies, programmes and projects (regardless of their funding source). These would allow all interventions to be "sustainable development-proofed". It would need to be complemented with robust ex post evaluations of the impact of positive case stories on all three pillars, as well as systematic exchange of knowledge through online compendiums and communities, to maximize the impact on sustainable development results.

V. Recent trends in international development cooperation

A. Quantity, sources and channels of development cooperation

Growth in development cooperation is slowing, but it remains vital for the least developed countries and the Millennium Development Goals

51. Development cooperation is estimated to have exceeded $170 billion in 2010, compared with $161 billion in 2008 and $127 billion in 2006. Growth in nominal terms has slowed markedly, from 27 per cent in 2006-2008 to only 6 per cent in 2008-2010.

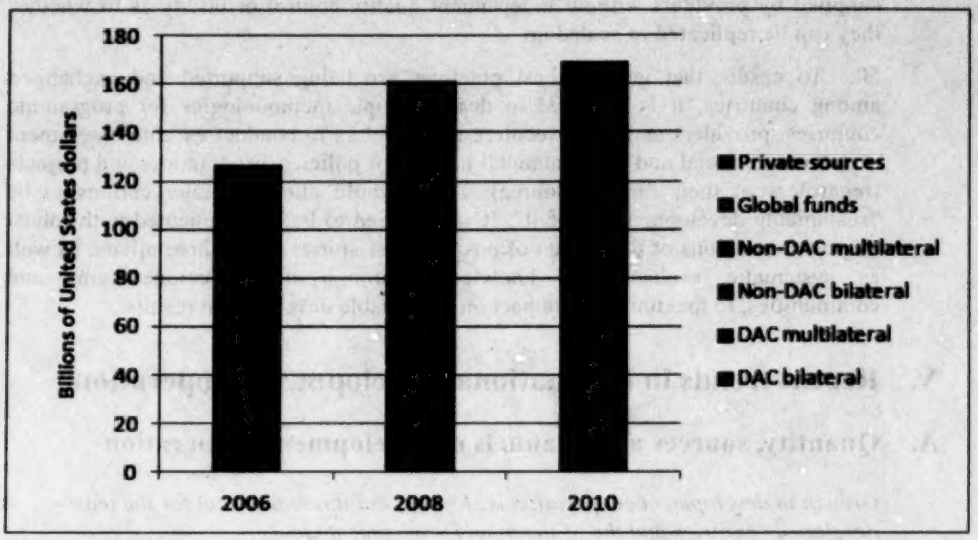
52. Over the past decade, owing to a rise in private flows (especially workers' remittances, foreign direct investment and new commercial loans), development cooperation has become much less significant as a source of global financing for development. Nevertheless, while it has fallen to less than a quarter of financial flows to developing countries overall, it continues to represent around 70 per cent of flows to low-income countries. For the least developed countries, in particular, it remains more important as a share of gross national income than remittances and foreign direct investment combined and funds almost 40 per cent of their budget expenditures.

53. In addition, development cooperation is seen by programme countries as a vital source of funding because it has a much stronger focus on issues related to sustainable development (anti-poverty and environmental) than private flows and directly funds high proportions of expenditure on education, health, food security, water and sanitation in most low-income countries. The financing gaps for the Millennium Development Goals remain massive ($110 billion-$120 billion a year, according to OECD and the United Nations) and, especially as the target date for their achievement gets closer, development cooperation remains central to fulfilling them.

Providers continue to diversify, with rising South-South cooperation, philanthropy and decentralized cooperation

54. Reliable estimates of development cooperation from sources other than OECD-DAC members are difficult to obtain. Nevertheless, as shown in the figure below the shares of South-South cooperation, and of private sources and global funds, are estimated to have risen sharply in the period from 2006 to 2010.

International development cooperation, 2006, 2008 and 2010



Source: Department of Economic and Social Affairs, based on OECD-DAC data and other sources.

55. Private philanthropic organizations[1] have become a key source of development cooperation, particularly in critical sectors such as health and education. Foundations, by operating outside official channels, can take higher risks and invest in more innovative projects. They can sometimes respond more quickly to emergencies with lower transactions costs and reduce risks of misappropriation by delivering directly to civil society organizations. However, these advantages accrue only to those which adopt best practices and have to be set against the dangers of fragmentation, weak coordination, high overhead or procurement costs and poor accountability.

56. There are, however, significant information gaps on the role, volume, scope and characteristics of private global philanthropy, owing to complex funding structures and operational settings with diverse legal and fiscal requirements. Much more analysis is needed to identify and spread best practices and increase the impact of private grants on development results. The Development Cooperation Forum will continue to play a key role in promoting such analysis and including philanthropy in the global dialogue on development cooperation.

57. Local governments and municipalities are increasingly engaged in development cooperation, spurred by urbanization and decentralization trends. This form of decentralized cooperation, because of its proximity to local communities, can increase responsiveness and accountability in fulfilling their needs. There is also increased decentralized cooperation taking place via social partners, such as labour

[1] As defined in Development Cooperation Forum preparatory research, private philanthropy means non-governmental non-profit entities providing grants or concessional loans to other organizations, institutions or individuals for the purpose of promoting economic development and welfare. It comprises foundations, funds, trusts or endowments but excludes NGOs, civil society organizations, faith-based organizations or self-financing institutions.

unions. However, data on decentralized development cooperation and evidence on its contribution towards development objectives are also limited. Further work to collect such evidence would be helpful.

DAC ODA is likely to stagnate over the medium term, with poor prospects for ODA targets

58. Throughout the past decade, programme countries relied in part on steadily increasing disbursements of DAC ODA, which grew by 63 per cent during 2000-2010 and peaked at $128.5 billion. However, in 2011, the fiscal constraints faced by several DAC donors started to impinge upon their aid budgets: 16 DAC members reduced their aid. For the first time since 1997, net ODA disbursements from OECD-DAC members fell in real terms (by 2.7 per cent) and, as a share of gross national income, from 0.33 to 0.31 per cent.

59. The timid recovery in the global economy and the prevalence of risks do not augur well for DAC ODA in the near future. The main prospects for changing this would be if DAC governments allocate revenue mobilized from innovative financing (such as financial transaction or fuel/carbon taxes) to development cooperation. Prospects for reaching the United Nations target of 0.7 per cent of ODA to gross national income (GNI) by 2015 are receding. Only five OECD-DAC countries reached or exceeded the target ratio before 2010, and the ratios worsened in four of those countries in 2011. Only four other DAC donors exceeded 0.5 per cent of GNI and, therefore, most others look unlikely to reach 0.7 by 2015.

More development cooperation should flow via multilateral institutions

60. OECD-DAC members have continued to increase the share of their aid which goes through multilateral organizations, but the share of core contributions has fluctuated between 26 and 31 per cent between 2006 and 2011. The share of core contributions to the United Nations has fallen from 33 per cent in 2007 to 30 per cent in 2010.

61. From the perspective of bilateral providers, earmarking provides greater oversight over the use and results of funds. However, from the programme country perspective, it undermines responsiveness to national priorities and increases transaction costs. For the multilateral institution, it also undermines medium-term needs-based planning and increases administrative costs.

62. Providing aid via multilateral organizations is rightly seen as reducing the politicization and commercialization of development cooperation. It is thus regarded positively in many DAC countries. South-South cooperation is also increasingly using multilateral channels, and some DAC members continue to provide more than 60 per cent of their cooperation through multilaterals. However, greater efforts are needed to increase unearmarked flows through multilateral institutions to improve effectiveness.

63. Bilateral ODA, in the form of development projects, programmes and technical cooperation, represents around 60 per cent of net ODA from OECD-DAC members. In 2011, bilateral ODA registered a 4.5 per cent decline in real terms. This hit the poorest countries hardest, as bilateral ODA to least developed countries dropped by 8.9 per cent in real terms.

B. Allocating development cooperation — countries, sectors and delivery modalities

ODA is being allocated slightly more with country needs, but more progress is urgent

64. Another important key indicator is core ODA.[2] This provides a measure that excludes humanitarian aid, debt relief and provider administrative costs. It reflects ODA flows that are available for planning and spending on national priorities. After rising sharply to 55 per cent of total ODA in 2010, core ODA is also estimated to have fallen in 2011, by 2.4 per cent, and is expected to stagnate over the next few years.

65. As a proportion of overall ODA, the share of least developed countries increased from 31 to 48 per cent between 2005 and 2010. During the same period, the share of small island developing States doubled to 8 per cent, while the proportion going to landlocked countries rose from 18 to 24 per cent. There has been a significant reallocation of ODA to the most vulnerable countries, but there remains much scope for increasing it.

66. The share of ODA to middle-income countries declined from 61 to 42 per cent: nevertheless, there is a reasonable case for providing some ODA to middle-income countries, given that they are home to three quarters of the world's population living on less than $1.25 a day and are regional engines of growth for neighbouring low-income countries.

67. An important issue is that of provider "darlings" and "orphans" in ODA allocation decisions. The question is whether flows are directed to countries that need it most or are excessively concentrated on a few programme countries. DAC indicates that in 2010, about 20 programme countries were underassisted compared with their needs and performance, almost all of which are least developed countries. However, there are also some signs that allocation of core ODA is less concentrated, with the top 10 recipients of OECD-DAC core ODA accounting for only 37 per cent of the total, down from 40 per cent in 2007-2009.

Modalities continue to be inconsistent with programme country priorities

68. Modalities such as budget support are perceived by programme countries to be the most conducive to national ownership and leadership, also because they allow parliaments and civil society to hold their governments (rather than providers) responsible for efficient and fair service delivery. At the Development Cooperation Forum preparatory symposium in Mali, it was recommended that at least 30 per cent of development assistance to least developed countries be delivered as budget support.

69. Nevertheless, the bulk of bilateral and multilateral ODA from OECD-DAC members continues to be delivered as projects. In 2010, projects accounted for 53 per cent of bilateral ODA and 61 per cent of multilateral ODA, with only 5.6 per cent of bilateral and 18.2 per cent of multilateral ODA coming in as budget support. Figures for technical assistance are thoroughly unreliable, as most DAC donors report only stand-alone technical assistance, whereas around 40 per cent of project

[2] For more background on the "core aid" concept, see http://www.oecd.org/document/38/0,3746,en_2649_3236398_46022758_1_1_1_1,00.html.

funding is also technical assistance, which pushes the real share of technical assistance to over 30 per cent. Programme countries have repeatedly stressed their wish to see the share of technical assistance fall sharply. In comparison, humanitarian aid represented 6.5 per cent of total DAC ODA in 2010.

Sectors: more needed on infrastructure, health systems, basic education and gender

70. In terms of sectors, 2009-2010 saw a continued shift away from governance towards infrastructure (energy and transport), agriculture and environmental protection. Most notably, 18 per cent of ODA disbursed to the energy sector went to renewable power generation in 2010, nearly twice as much as in 2009 and well above the non-renewable energy sector. These trends were in line with the emerging priorities of programme countries, as expressed at the 2011 United Nations Conference on the Least Developed Countries. However, there continues to be a massive deficit in infrastructure financing in almost all developing countries, requiring much more comprehensive investment in sustainable energy, transport and water.

71. The overall shares of the health and water and sanitation sectors remained broadly unchanged. Within the health sector, more was spent on basic health, but with growing focus on diseases or subsectors, such as malaria, tuberculosis and nutrition, rather than integrated support for health systems. On the other hand, ODA allocations for education fell slightly, and basic education fell as a share of overall education ODA, with student scholarships in provider countries continuing to account for an excessively large share of overall spending.

72. Around 22 per cent of DAC ODA was directed towards enhancing gender equality and women's empowerment in 2010, up from 15 per cent in 2008. This covers the ODA directly targeting those goals, as well as cases where they are secondary objectives. Performance varies widely across DAC donors: three of them devote over 60 per cent to these goals, while two devote less than 10 per cent.

73. The Development Cooperation Forum has underscored the importance of reinforcing these efforts. The Development Cooperation Forum preparatory symposium, held in June 2010 in Helsinki, led to the identification of indicators and good practices for enhancing the gender impact of development cooperation.[3] During the current cycle, the adoption of these indicators has been promoted in various forums.

VI. Promoting a comprehensive approach towards the quality of development cooperation

74. Debates at the Development Cooperation Forum have also emphasized the importance of a more comprehensive approach to assessing the quality of development cooperation, based on inputs from its multiple governmental and non-governmental stakeholders. They stressed the need for increased predictability, reduced conditionality and flexibility in responding to shocks and changing needs; and called for a sharper focus on gender and on development results.

[3] For the indicators, see *Development Cooperation for the Millennium Development Goals: Maximizing Results* (ST/ESA/326, pp. 68 and 69).

A. Need to reflect diversity

Quality may be assessed differently by different providers

75. Recent discussions on quality have been dominated by a focus on development results. This is a key dimension for all countries. However, when assessing progress, it is important to look beyond results. This includes the factoring in of different ways of evaluating quality that better reflect the views of all countries — developed and developing — and stakeholders. For example, some developing countries have pointed to the need to give greater attention to the speed of delivery of development assistance, which is not included in current aid effectiveness criteria. Similarly, many civil society organizations place a high value on participation and empowerment of beneficiaries, arguing that this is essential for the sustainability of results. It is therefore important to recognize that a comprehensive approach assessing quality of development cooperation needs to encompass a broad range of aspects and views.

76. Development cooperation must above all be needs-based, taking into account structural vulnerabilities and structural needs. National priorities should be funded in a balanced way, covering all key sectors. Globally, development cooperation should continue to be targeted towards vulnerable and marginalized countries, such as least developed countries, small island developing States and post-conflict countries. Those countries also tend to receive lower quality cooperation. Combined with their high dependency on cooperation, this has motivated the New Deal for Engagement in Fragile States. The New Deal also emphasizes that countries in different circumstances may value specific types of cooperation differently. For example, those emerging from conflict may prioritize emergency peacebuilding and State-building.

Longer term results should be factored into the discussion of quality

77. Demonstrating rapid results at minimal cost is important to generate support from taxpayers in provider countries and citizens in programme countries. At the same time, the Development Cooperation Forum symposium in Mali pointed out that focusing narrowly on short-term results and cost-effectiveness is quite risky. Results that are less quantifiable (such as empowerment, sustainability and rights) or easily attributable to a single provider could have a major impact on sustainable development. Developing a comprehensive approach that captures the imperatives of medium- and long-term results is therefore critical.[4]

78. Equally, global processes to review and analyse progress on quality of development cooperation should not duplicate one another. Efforts should be made to ensure that they complement and build on one another.

B. Key issues: predictability, conditionality, fragmentation, tying and concessionality

79. One of the key messages of the symposium in Mali was that development cooperation contributes greatly to poverty reduction, if it is allocated, delivered and

[4] See *Gearing development cooperation towards the Millennium Development Goals, Report of the Mali High-level Symposium*, May 2011.

managed effectively. Its impact is greatest when it is needs-based and delivered in a timely, transparent manner. Critical ways to increase the quality and results of development cooperation therefore include improving predictability, reducing policy conditionality, addressing proliferation and fragmentation, reducing the incidence of tying and safeguarding concessionality.

The slowdown in development cooperation is affecting its predictability

80. Development cooperation needs to be more predictable and less volatile. This would shield programme countries from costly rebudgeting of spending plans. Most providers have multi-year programming frameworks, which indicate future flows on a rolling basis. A few remain constrained by annual budgeting processes, but can make indicative forecasts. Best practices of long-term engagement need to be applied across the board.

81. The slowdown in OECD-DAC core ODA has started to filter through to predictability. In 2010, disbursements fell short of commitments by 5 per cent. This is a stark contrast to 2009, when disbursements exceeded commitments, because multilateral organizations took swift action to front-load disbursements to fight the global economic crisis.

Policy and procedural conditionalities undermine predictability

82. The symposium in Mali reaffirmed that delivering development cooperation rapidly and on schedule requires a sharp reduction in policy conditionality. Overall, providers are imposing slightly fewer conditions on programme countries and a higher proportion of conditions are based on programme countries' policy documents, but too many are still prepared by donors. Much more progress is needed to streamline conditions.

83. A closer look at remaining policy conditions shows a shift towards governance, which programme countries see as hindering their ownership (see E/2010/93). Meanwhile, the trend towards outcome- and results-based conditions[5] has accelerated. This could, in principle, provide programme countries with greater space to formulate their own policies. However, it could also lead to a whole new set of results indicators. This raises some concern that providers would micromanage programme countries through data collection and auditing exercises.

84. Speed of delivery also requires reducing other conditions related to procedures. In this area, it is time to move beyond coordinating provider missions and analytical work. The next step would be to align all missions and analysis with government-led sector or programme reviews. Providers would also rely more on country monitoring and evaluation systems, as well as those for planning, budgeting, financial management and procurement.

Provider proliferation and fragmentation reduce the impact of development cooperation

85. Proliferation refers to an increase in the number of providers to a specific programme country. Recent estimates suggest that there are now 126 bilateral OECD-DAC agencies, 23 non-DAC providers and 263 multilateral aid agencies of

[5] These conditionalities reflect the evolution from traditional ex ante conditionality, which favours prior agreement on policies and policy reform, to ex post conditionality, which puts the emphasis on actual completed measures and/or outcomes.

varying sizes. Virtually all low-income countries have seen an increase in the number of providers in recent years. Proliferation increases transactions costs (including on coordination) and raises the possibility of conflict over development priorities and conditionalities. It may also undermine capacity when civil servants act as counterparts for provider staff, or when limited resources are diverted to hiring technical assistance or establishing management units to run projects.

86. A related issue is that of fragmentation. Since 2007, the average value of DAC ODA per project has registered a sharp decline. In parallel, the number of projects has steadily increased, leading to considerable transactions costs. The potential for major new channels of funding for climate change and sustainable development, with more fragmentation to tackle these additional objectives, renders these challenges even more pressing.

87. Efforts to address proliferation and fragmentation through initiatives such as "division of labour" among donors have not moved fast enough and have yet to translate into observable changes in allocation or disbursement. In future, programme countries should be in a position to assess comparative advantage among providers and guide division of labour accordingly. However, fragmentation seems to be worst in low-income countries and least developed countries where capacities to assess comparative advantage and negotiate division of labour are weakest.

Tying of development cooperation continues to reduce cost-effectiveness

88. There are still widespread concerns about tying of development cooperation to purchases of goods and services in provider countries. This is estimated to increase costs by between 25 and 60 per cent, sharply reducing results. Yet, in the five years prior to 2010, the proportion of untied DAC ODA declined from 91 to 83 per cent, and global efforts to reduce tying are limited to least developed countries and HIPCs, and do not apply to technical or emergency assistance. While South-South cooperation also can be tied, it is often considerably cheaper and better value than tied DAC ODA.

Lower concessionality could erode progress in debt sustainability

89. The concessionality of development assistance is another important element, to help avert the accumulation of new debt burdens and enhance long-term fiscal space for Millennium Development Goal spending. There is scope in some low-debt countries for increased borrowing, even on less concessional terms for high-return projects, but this needs to be carefully analysed and used.

90. Since 2005, the share of bilateral DAC ODA provided in the form of grants has fallen from 89 to 85 per cent. Five DAC providers have changed their policies to restart loans to low-income countries. This trend has been somewhat offset by a rise in multilateral grants from 61 to 67 per cent. Most DAC ODA loans to low-income countries are on very concessional terms and so do not risk increasing debt burdens, but there has been a trend to provide to developing countries, especially middle-income countries, in the form of export credits.

Institutional governance arrangements should evolve in line with the changing landscape

91. Future global institutional arrangements to govern development cooperation are being discussed at the United Nations and as part of the development effectiveness process. The Development Cooperation Forum has a critical role in reviewing, promoting and guiding development cooperation as well as its coherence and effectiveness. Substantive and organizational linkages should be built with the other processes, ensuring close collaboration among multilateral organizations. The discussions on aid quality should occur in inclusive forums, such as the Development Cooperation Forum. This would allow emphasis on a broader set of quality issues considered vital by developing countries and other stakeholders and ensure that all stakeholder groups are regularly consulted on progress. In this regard, there is a need to build synergies among various forums but with due regard to their respective mandates and functions.

92. All processes need to respond to the changing development landscape. The special features of various forms of development cooperation have to be recognized. South-South cooperation, as well as cooperation by the private sector, civil society organizations, foundations, decentralized government entities and social partners, all have different characteristics compared with North-South cooperation. Platforms and support should be provided to those diverse providers who wish to develop their own frameworks for assessing the characteristics, quality and results of their cooperation. It is also important to foster an environment in which actors can exchange lessons learned and good practices, promote innovative solutions and identify new partnerships. The Development Cooperation Forum is well suited to make this happen.

VII. Partnerships based on mutual accountability and transparency

Accountability and transparent delivery of development cooperation are crucial for results

93. Greater accountability and transparency can improve the quality of development cooperation, making financial resources more adequate, predictable and targeted. The importance of mutual accountability was recognized by member States at the 2010 Millennium Development Goal summit. Efforts to strengthen accountability should also be linked to the Millennium Development Goals Integrated Implementation Framework, adopted by the United Nations System Chief Executives Board for Coordination as a key accountability instrument.

A. Mutual accountability

94. Mutual accountability refers to accountability between programme country governments, providers and other stakeholders (including civil society and parliament). The stronger mutual accountability is at the global, regional, national and sectoral levels, the greater the likelihood that development cooperation providers and programme countries will change their behaviour to maximize results for development.

National strategy, targets for each provider and strong leadership are key

95. The Department of Economic and Social Affairs/UNDP conducted broad-based surveys of 105 countries in 2010 and 2011. The findings underscore the importance of political leadership and vision for ensuring mutual accountability. They highlight the need to invest in capacity-building, orienting development cooperation towards results. The survey revealed the need for top-level commitment of providers to global and national mutual accountability. This is key to promote changes in headquarters policies and ensure that decentralization fosters an adaptation to national priorities.

96. Development Cooperation Forum analysis shows that, to be effective, national mutual accountability mechanisms must include three elements. The first is an agreed national development cooperation policy or strategy document. The second are specific performance targets for the government and individual providers. These must be aligned with national development priorities. The third is strong programme country government leadership, in particular through high-level policy dialogues to review progress on an annual basis

97. Strong national-level mutual accountability has been clearly shown to have a major positive impact on programme country and provider behaviour. It has improved the quality of national development strategies, results frameworks and public financial management systems, and the degree to which providers align their cooperation with national strategies and systems. As a result, it has increased the results of development cooperation (and other programme country spending) by reducing transaction and administration costs, duplication and project proliferation, and increasing predictability.

98. These key pillars of national mutual accountability are rarely in place. Progress is disappointingly slow. A maximum of 26 countries have made some progress on national-level mutual accountability, and 20 currently have initiatives under way to improve the quality of their mutual accountability. However, only three countries have aid policies with individual provider targets which are monitored regularly. The international community should prioritize supporting recipient efforts to develop strategies, add individual provider targets to existing strategies, and conduct annual independent or programme country-led analysis of provider performance against targets.

Mutual accountability frameworks should include diverse providers and stakeholders

99. Moving forward, it is vital that national mutual accountability frameworks allow for the inclusion of non-OECD providers, civil society organizations, decentralized providers and other actors. This is essential to cover all types of development cooperation (e.g., climate change finance) to maximize results more broadly. This will in some cases require different frameworks and indicators, tailored to reflect the specific characteristics of different flows.

100. Some countries have also begun to broaden accountability frameworks to cover "partnership policies". These policies cover issues such as trade, debt relief, agriculture, technology and other development-related policies. This can facilitate progress on wider issues and reduce dependence on aid over the medium term. However, the countries face provider reluctance to discuss these issues in national

mutual accountability processes. This is owing mainly to a lack of coherence among provider ministries.

101. Domestic stakeholders must be able to hold their own governments to account, both in provider or programme countries. Yet, only 10 programme countries (and relatively few providers) have registered any important progress in this area. Full participation of non-executive stakeholders is integral to successful mutual accountability. Parliaments, local governments, civil society, women's organizations, trade unions and the private sector should have a strong role. They need to be involved in producing analytical inputs which are discussed in mutual accountability meetings. They should also determine the agenda for discussions by participating in executive committees and sector/technical working groups.

A strong global mutual accountability framework is a prerequisite for national-level progress

102. Monitoring must be tailored to national priorities and circumstances. However, there is very strong evidence from programme countries and civil society that progress at the national level is highly dependent on a strong global framework, which changes incentives for provider policymakers. Hence, global and national processes must work closely together.

103. Global and regional initiatives can also play a supportive role in provoking debate among providers, as well as encouraging experience sharing and capacity-building for programme countries and other stakeholders. It is therefore important that various global processes aiming to foster dialogue and knowledge-sharing should work together and complement each other, and the Development Cooperation Forum has a key role to play in this respect.

Capacity constraints are a major barrier to effective mutual accountability

104. Capacity constraints are an issue for providers and programme government agencies, but especially for non-executive stakeholders. For an effective analysis of provider performance and development results, analytical capacity and data compilation need to be strengthened. This is particularly true in countries in sub-Saharan Africa and in post-conflict or vulnerable countries. The international community should devote more efforts to this issue, supporting global, regional and national non-executive stakeholder bodies. Best practices lessons and South-South exchanges can provide key signposts for the next steps. Improvements could be guided by an online repository of information and a community of practice which exchanges information on lessons learned.

B. Transparency

Transparency is vital to accountability — but the links being made between the two are weak

105. Comprehensive compilation and timely dissemination of data on development cooperation helps to maximize results. By increasing the ease and effectiveness with which governments can manage development cooperation, data can improve accountability. The International Aid Transparency Initiative is one helpful global process: its 29 signatories account for 80 per cent of OECD-DAC ODA. However, it

is vital that its data are "real-time" and forward looking for three to five years to assist national planning. It would also be helpful to distinguish carefully between on- and off-budget cooperation and ensure that on-budget cooperation is classified similarly to programme country budgets.

106. Global data also need to be more closely linked to national aid information management systems, and thereby to planning and budgeting systems. In particular, efforts should be enhanced at the global and national levels to broaden coverage of data to non-OECD, civil society organization and other providers, many of which already report flows in programme countries.

Future action must focus on translating transparency into accountability

107. Transparency should also focus on the data and documents which stakeholders need to hold others accountable. This means on quantity and composition of flows, as well as their effectiveness in producing development results. Ideally this would require tracking post-Busan indicators and frameworks adopted by other providers via global and national databases so that progress can be monitored automatically. This would reduce the need for monitoring surveys and avert reporting fatigue. It also calls for greater selectivity, avoiding information that is unlikely to be used and that creates unnecessary expense. It also means making greater use of tools which can help at the decentralized and community levels, such as geocoding and mobile telephony.

108. Finally, there has been a proliferation of mechanisms for promoting mutual accountability and transparency at the global, regional, sectoral and national levels. This is positive insofar as it can promote mutual learning of best practices. However, it is essential to harmonize and simplify the mechanisms and to avoid conflict or duplication. The Development Cooperation Forum should continue to conduct assessments of the status of mutual accountability and transparency mechanisms, led by programme countries and in close cooperation with non-executive stakeholders. This would require improving methodology for assessing their inclusiveness, and including assessments of development strategies and results frameworks.

VIII. Harnessing the benefits of South-South and triangular cooperation

A. Overall trends and characteristics

Global political dialogue on South-South cooperation has increased since 2008

109. The global dialogue on South-South cooperation has continued to evolve. Echoing the Nairobi outcome document, the 2010 Millennium Development Goal Summit and the Fourth United Nations Conference on the Least Developed Countries stressed that South-South cooperation is a complement to, rather than a substitute for, North-South cooperation (see General Assembly resolution 65/1). The Fourth United Nations Conference on the Least Developed Countries also highlighted the important role of South-South cooperation and the need to assess its

impact in order to "improve its quality in a results oriented manner".[6] The Busan outcome document also laid out concrete steps to strengthen knowledge sharing and mutual learning from South-South cooperation.

110. In parallel to this global dialogue, the desire of Southern partners to harness the potential of their cooperation has led to the creation and formalization of several platforms. Structures such as the Africa-South America Summit, the Forum on China-Africa Cooperation and the India-Africa Forum Summit are emerging as key platforms for discussions on development cooperation. Most recently, the BRICS (Brazil, Russia, India, Indonesia, China and South Africa) Summit decided to explore the possibility of the creation of a BRICS Development Bank.

South-South cooperation is set to continue growing

111. South-South development cooperation is estimated from public (such as budget) documents to have been between $12.9 billion and $14.8 billion in 2010, though data gaps make this an underestimate. This represents a fall of around 20 per cent compared to 2008, when there was exceptionally high financing for Arab humanitarian assistance and Venezuelan concessional oil. However, it is still 50 per cent higher than in 2006. Looking ahead, South-South cooperation is expected to increase again, with major increases planned by China, India and Venezuela.

South-South cooperation varies widely in terms of modalities and country focus

112. South-South cooperation takes many different forms. Technical assistance, capacity-building, knowledge-sharing and training initiatives are important components, especially for smaller providers. However, project support predominates in volume terms, especially for infrastructure development (but also for agriculture and food security, health and education). There is little budget support, except for a few key relationships with strategic allies and neighbouring countries.

113. South-South cooperation differs widely in terms of its geographical focus. Many providers, such as the Arab countries and Brazil, tend to cooperate most with partners that share cultural, religious and linguistic ties. Other providers tend to prioritize neighbouring countries and important trade partners. A few (notably China and India, and South-South multilateral organizations) have a more global reach.

114. On concessionality, a wide range of smaller South-South providers supply only grants. Some of the larger bilateral and multilateral providers rely mainly on concessional loans, which in general meet concessionality criteria set in national development programmes and therefore do not risk causing new debt problems. Most South-South cooperation is tied to goods, services or personnel from the supplying country; however, assistance provided by Arab countries is largely untied.

Southern providers have expressed the wish to better assess their own results

115. Given its absence of policy conditionalities and its focus on infrastructure and the productive sector, South-South cooperation is often perceived by programme countries to be more responsive and tailored to their needs and priorities. This is

[6] Programme of Action for the Least Developed Countries for the Decade 2011-2020, adopted at the Fourth United Nations Conference on the Least Developed Countries.

because it reflects similar historical context and development stages, and strong social or cultural ties.

116. A background study for the Development Cooperation Forum on South-South infrastructure cooperation indicates that it is also assessed by programme countries as being cost-effective owing to lighter procedural requirements, lower transaction costs, faster delivery speeds and greater predictability. These features could be prominent in any framework that South-South providers may establish to review the results of their cooperation.

117. Despite recent efforts to better coordinate development cooperation, many Southern partners provide assistance through a variety of channels and institutions. Several are currently trying to establish stronger, more centralized, agencies. The Development Cooperation Forum can facilitate an exchange of experiences on the process of establishing and operating such agencies.

118. Capacity-building can support the establishment of frameworks for self-evaluation by Southern providers of the results and cost-effectiveness of their cooperation. Some Southern providers have indicated that they would like to see increased knowledge exchange on methodologies for internal evaluation and assessment.

B. Key sectors: infrastructure and agriculture

Southern providers provide major support to infrastructure and agriculture

119. In terms of sectoral focus, a predominant share of development cooperation provided by China and the Arab countries is to support infrastructure development. For Brazil and India, technical cooperation in the social sectors and agriculture accounts for a large share of the total.

120. The report of the Secretary-General to the Development Cooperation Forum (E/2010/93) in 2010 examined in detail South-South cooperation on health. Analysis during this cycle has focused on South-South cooperation for infrastructure and agriculture.

Southern providers are preferred for infrastructure but need to support water sector more

121. Investments of Southern providers in infrastructure help programme countries diversify their economies. They provide reliable energy sources, transport routes and information and communications technology at lower costs. Between 2001 and 2008, Southern providers accounted for 47 per cent of official infrastructure financing for sub-Saharan Africa. Projects were mostly delivered in a timely, predictable and cost-effective manner.

122. That factor, together with the relative scarcity of DAC ODA for infrastructure, made Southern providers a priority source for programme countries. However, some sectors, such as water, have been relatively neglected by both DAC and Southern providers, slowing progress to the achievement of the Millennium Development Goals.

Well-designed South-South cooperation in agriculture can boost smallholder production and food security

123. South-South agricultural partnerships are mainly in technical cooperation and technology transfer. Triangular cooperation is also widely used, and United Nations agencies often play a facilitating role. Over 40 such agreements were signed by 2010.

124. Well-designed South-South cooperation can boost national agricultural productivity and food self-sufficiency, mitigate the impacts of natural disasters and fight climate change. It can also promote efficient smallholder production and food security for the poor. Close attention should be paid to land acquisition and rights to ensure that the poor retain access to, and control over the land on which they depend. Additional studies are needed to identify more clearly best practices in South-South cooperation to promote agriculture and food security.

Triangular cooperation has major advantages for programme countries

125. Programme country demand for triangular cooperation is on the rise. The priorities of triangular cooperation are capacity development, knowledge- and information-sharing. Triangular cooperation maximizes the comparative strengths of Northern funding and Southern expertise, and is therefore more likely to fulfil programme countries' needs and priorities. The credibility and potential for the scaling up of cooperation extended by pivotal countries is perceived to be one of the most important benefits. Triangular cooperation faces important challenges of high transaction costs and tensions over policy coordination, but its benefits far outweigh its potential drawbacks (see A/66/229).

IX. Key messages and recommendations

126. Eight sets of key messages have emerged from preparatory consultations for the Development Cooperation Forum:

127. **One — it is high time to address unmet Millennium Development Goal 8 commitments**, including:

(a) Stepping up efforts to reach the ODA-to-GNI target of 0.7 per cent by 2015;

(b) Developing stronger debt relief mechanisms which are independent of creditors and taking stronger measures to keep debt burdens sustainable;

(c) Exempting all least developed countries from duties, quotas and non-tariff barriers, especially for exports of finished products and processed agricultural goods;

(d) Delivering in full on enhanced access to affordable medicines and new technologies.

128. **Two — domestic financing could be more effectively catalyzed for development**, by:

(a) Broadening the access of the poorest households to affordable and inclusive financial services for savings, insurance and investment in scaleable enterprises;

(b) Ensuring microfinance is well regulated to reduce costs and focus on poverty reduction and sustainable livelihoods, as well as targeting productive investment;

(c) Increasing capacity-building support for domestic revenue mobilization, especially through South-South best practice exchanges and training;

(d) Deepening cross-border collaboration on mandatory tax information exchanges, and changing OECD tax rules to increase payments in programme countries;

(e) Ensuring that tax systems promote sustainable development by discouraging excessive resource use.

129. **Three — we must seize the opportunity to promote sustainable development**, by:

(a) Mobilizing additional global funding, notably via innovative financing mechanisms;

(b) Learning lessons from the best development cooperation which simultaneously targets all three pillars of sustainable development, protects allocations based on need, and promotes innovative technology;

(c) Pre-screening all development cooperation to ensure it has a positive impact on equity, human development and environmental sustainability;

(d) Ensuring that programme countries enhance their capacity to design sustainable development strategies, and lead decisions on allocation and management of funding;

(e) Broadening global and national mutual accountability processes and indicators to cover equity and sustainability issues more fully.

130. **Four — allocation of development cooperation must be further improved**, by:

(a) DAC donors providing higher shares of core aid which reaches programme countries;

(b) Channelling more unearmarked cooperation to multilateral organizations;

(c) Allocating a higher share of cooperation on the basis of need to the poorest, most vulnerable and underassisted countries;

(d) Aligning modalities with programme country preferences, by increasing budget support and reducing technical assistance;

(e) Prioritizing investment in sustainable infrastructure and productive capacity, to support diversification beyond primary commodity exports;

(f) Focusing more on basic education, health systems, water and sanitation, and building strong social protection systems;

(g) Increasing targeting of cooperation to gender equality and women's empowerment.

131. **Five — the quality and results of development cooperation must be increased**, by:

(a) Enhancing predictability through providing rolling three- to five-year disbursement forecasts, reducing policy and procedural conditions, and increasing use of country systems;

(b) Reducing provider proliferation and fragmentation through programme country-led division of labour processes which do not reduce flows in key sectors;

(c) Increasing efforts to untie development cooperation by all providers;

(d) Increasing grants and concessional loans for countries with high risks of unsustainable debt, to avoid renewed debt problems.

132. **Six — progress in accountability and transparency needs broader engagement**, by:

(a) Pursuing efforts for voluntary self-reporting on data and best practices by civil society organizations, foundations and decentralized providers;

(b) Supporting more programme countries to design aid policies, set performance targets for individual providers, and organize high-level annual dialogues to review progress;

(c) Ensuring full participation of non-executive stakeholders in national mutual accountability and transparency initiatives;

(d) Providing capacity-building support to programme country governments and non-executive stakeholders to enhance country-level mutual accountability and transparency;

(e) Developing programme country-led systems to evaluate and assess the quality and impact of cooperation from providers;

(f) Better aligning the International Aid Transparency Initiative with national budget and aid information systems to ensure that quality indicators are tracked and the need for surveys is reduced.

133. **Seven — maximizing the benefits of South-South and triangular cooperation needs**:

(a) Continuing to support global voluntary processes among South-South providers to share and discuss best practices in their development cooperation, including on such issues as high value for money, speed of delivery, and greater predictability;

(b) Focusing even more infrastructure cooperation on sustainable and low-cost energy, and transport and communications systems, and focusing agricultural cooperation on boosting national food security and smallholder production;

(c) Continuing to scale up triangular cooperation especially for capacity development.

134. **Eight — the Development Cooperation Forum has a key role to play in assisting progress**, by:

(a) Continuing to review and report on progress in meeting the Millennium Development Goal 8 commitments and assisting in defining clearer commitments on development cooperation for any post-2015 framework;

(b) Broadening its analysis and debate on the catalytic role of development cooperation, especially to identify best practices relating to foreign private flows and remittances;

(c) Deepening its assessment of lessons learned on best practices in development cooperation for sustainable development, including promoting innovative technology;

(d) Continuing to monitor allocations by country, modality and sector, as well as the degree to which development cooperation is targeting sustainable development and gender equality and empowerment;

(e) Continuing to promote discussion among multiple stakeholders on assessing the quality of development cooperation, while taking account of their needs, priorities and the specific characteristics of different types of cooperation;

(f) Broadening its monitoring of progress at the national and global levels on mutual accountability and transparency, to cover inclusion of all stakeholders and quality of results frameworks in more detail;

(g) Continuing to conduct studies of best practices in various sectors and types of South-South cooperation;

(h) Continuing to provide a platform for philanthropists to share information and analyse best practices in maximizing development results and aligning funds with needs;

(i) Deepening analysis, in cooperation with decentralized providers and programme countries, of best practices in providing decentralized cooperation;

(j) Increasing its exchange of information among countries on best practices in development cooperation.